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Tobin in Europe: A Case for the Financial Transaction Tax

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ABSTRACT

With the continuous tensions over the financial transaction tax (FTT) in the European Union (EU), it is necessary to research the Tobin tax and the proposal of the Commission for a FTT in the EU. This paper shows that the FTT should be introduced in the EU for multiple reasons. There are three contentious issues in the literature with regard to the FTT that were explored in this paper: the effects of a FTT on price volatility, its effects on speculation, and its feasibility. My research of the academic work shows that the counter-arguments are mostly academic in nature and pale in comparison with the benefits such a tax could offer. I expanded on this and elaborated why, outside of scholarly debate, the FTT is a good idea that should be realized, and why it will most certainly offer great benefits to the EU in the long run.

KEYWORDS

financial transaction tax, Tobin tax, European Union, debt crisis

In the wake of the financial crisis that came over the world in 2008 an old idea was revived in the European Union (EU) when Herman Von Rompuy, the President of the EU Council and José Manuel Durão Barroso, the President of the European Commission, officially requested that, “the introduction of a global financial transaction tax should be explored and developed further in that context” by the G20 during the summit in Toronto in June 2010 (“EU urges G20,” 2012). For political reasons and due to the resistance of the United States and the UK, no progress was made in Toronto in this regard, and the European Union found itself in a position where it either had to go at it alone or let the idea go. On September 28, 2011 Barroso gave his second annual state of the Union address. In it he advocated a financial transaction tax for the European Union to cope with the current financial crisis. As mentioned before, the idea of such a tax is not new. It was John Maynard Keynes (2009) who, in the wake of the Great Depression, first proposed that “the introduction of a substantial government transfer tax on all transactions might prove the most serviceable reform available with the view to mitigate the predominance of speculation...” (p. 133).

The collapse of the Bretton Woods system and the following extreme exchange rate swings motivated James Tobin, a Keynesian economist and winner of the Nobel Prize in Economics, to adopt the idea and apply it to the foreign exchange market. He first laid out the details of his idea in 1974 in “The New Economics, One Decade Older” and four years later in his “Proposal for International Monetary Reform”. In his eyes the problem was that goods and labor are not as mobile as financial flows, and that governments had lost autonomy and influence with the growth of the financial markets and the now floating exchange rates. Therefore, “some sand [should be thrown] in the wheels of our excessively efficient international money market” (Tobin, 1974, pp. 520-521). The “sand” Tobin proposed was “an internationally agreed uniform tax, say 1%, on all spot conversions of one currency into another” (p. 89).

The Tobin tax was never implemented but the idea tends to be revived in situations when turbulences in the financial markets cause crises that in turn give rise to the demand that financial institutions must be kept in check, for example in the late 1990’s after the Asian financial crisis. It does not come as a surprise that the idea was again exhumed in the wake of the 2008 crash because it caused the same type of sentiment and fears about financial markets. This time, however, the Tobin tax actually has a chance at being attempted for the first time. Therefore, it has been debated vehemently, especially since the European Commission has submitted its proposal for a Financial Transactions Tax (FTT)¹. Where Tobin’s version of the tax was one on short-term financial transactions, the proposition that is being considered in the EU at the moment is different: It aims at a larger tax base and does not distinguish between short and long-term transactions, “Thus the scope covers instruments which are negotiable on the capital market, money market instruments [...], units or shares in collective investment undertakings [...] and derivative agreements [...]” and also covers over-the-counter-trades by financial institutions such as pension funds, hedge funds, insurance companies, banks, etc. Excluded from the FTT are private transactions by citizens and companies as well as transactions of the European Central Bank and governments so that the tax does not interfere with the capital-raising potential of governments. The Commission proposes a tax rate of at least 0.1 percent on stocks and bonds and 0.01 percent on derivatives

1 Please note: the term “Tobin tax” is used for various types of financial transaction taxes and can often be found in the context of the FTT, but for the sake of accuracy and consistency with EU usage, the term financial transactions tax (FTT) will be used in this paper.

(“Proposal for a Council Directive,” 2011).

Since the Commission’s proposal, the topic has been a hot button issue among governments inside and outside of Europe, the media and the public. The scholarly debate reaches back to the original Tobin tax, and deals with three main points of contention. In the following, these three points will be explored, pro and counter arguments will be presented and conclusions will be offered if possible. Furthermore, it will be laid out beyond the scholarly debate why and how Europe in its current situation needs a FTT.

1. THE EFFECT OF A TRANSACTIONS TAX ON PRICE VOLATILITY

One of the main objectives James Tobin had in mind in the 1970’s was to address excessive price volatility, but the question whether a financial transaction tax would actually decrease or increase volatility could not be answered with certainty. There are essentially two views of the issue: Proponents argue that a FTT would decrease price volatility in financial markets (Summers & Summers, 1989, p. 170). They see an excess in short-term trading in the financial markets and consider it to be destabilizing as, “in the absence of any consensus on fundamentals, the markets are dominated...like those for gold, rare paintings, and...yes, often equities...by traders in the game of guessing what other traders are going to think” (Tobin, 1974, p. 158). It is necessary to distinguish short-term, and medium, and long-term volatility because, as Schulmeister, Schratzenstaller, and Picek (2008) explain, it is short-term speculation that causes deviations of the equilibrium asset prices in the long-run. A FTT would curb short-term speculation and thus stabilize the financial market. The dynamics of how a FTT could achieve this will be explained later on. Frank H. Westerhoff and Dieci (2006), researchers on the effects of such a tax on volatility, explored “the effectiveness of Keynes–Tobin transaction taxes when heterogeneous agents can trade in different markets”. In other words, what happens if a tax is introduced in one of two markets? They found that the market with the tax would be stabilized while the market without the tax would be destabilized. They concluded that this would put pressure on the second market to also introduce a transaction tax in order to compensate for the increased destabilization. Ehrenstein, Westerhoff, and Stauffer (2005) reproduced the same stabilizing effect in their work on “The Tobin Tax and Market Depth” but also noted that other models might lead to different conclusions.

The counter argument is based on the idea that speculation is not destabilizing, and is here presented by Davidson (1998):

“Only when the spot price randomly strayed from the estimated statistical average would agents engage in arbitrage (speculators) by buying or selling in the spot market to move the price back towards its (known) statistical average. Thus in a CEE [a classical-ergodic economy in which the future can be predicted with statistical reliability – as opposed to a Keynesian economy] speculation, to the extent it exists, is always stabilizing” (p. 647).

Speculation is seen as vital for a functioning market because it provides liquidity. There is in fact a fear that a transaction tax could lead to a loss of liquidity which is not denied by the supporters of the tax (Summers & Summers, 1989). However, the study above assumes that the “future can be predicted with statistical reliability” which makes its findings questionable at best and not very helpful for real-life applications (Davidson, 1998, p. 646).

Opponents are also convinced that speculation is needed to determine prices and to distribute risk through hedging (Schulmeister et al, 2008). The problem with this way of

arguing is that it does not offer any explanation for consistent deviations of prices from their equilibria. As Kenneth Rogoff (1996) points out:

“How is it possible to reconcile the extremely high short-term volatility of real exchange rates with the glacial rate (15 percent per year) at which deviations from PPP seem to die out? It would seem hard to explain short-term volatility without a dominant role for shocks to money and financial markets. But given that such shocks should be largely neutral in the medium run it is hard to see how this explanation is consistent with a half-life for PPP deviations of three to five years” (p. 18).

Hence, the claim that speculation cannot be destabilizing is highly questionable, especially in the face of events such as the current, the Mexican and the Asian financial crisis in all of which speculation played a major role.

Another aspect in the argument used to support the view that a Tobin-like tax would increase volatility is the role of market depth. It is feared that the tax would reduce trading volume which in turn could increase volatility because lower trading volumes are necessary to move prices if liquidity is decreased. In other words, the transaction cost would increase to a level that motivates traders to leave the market which decreases liquidity. Lower liquidity requires smaller trading volumes to move prices, and price volatility increases. This does not always have to be the case. Schöchli (2009) observes that in overly liquid markets it would have balancing and very beneficial outcomes.

This discourse should make clear that there is no consensus among scholars regarding the question of price volatility. Overall, it appears that there is more evidence in support of the perspective that the tax would reduce price volatility. Whether this is because proponents tend to research this topic more and use models that are more likely to produce results that support their view, or if this actually does mean that less volatility is a likely outcome, cannot be determined here. Instead, the conclusion has to be that a FTT could be stabilizing, or as the International Monetary Fund (2010) put it, “It is not always true that a FTT reduces market price volatility” (p. 20).

2. THE EFFECT OF A TRANSACTIONS TAX ON SPECULATION

Keynes (2009) differentiated between trading and speculation and regarded speculation as destabilizing. He was convinced that markets did not and could not work properly. Instead they were at the mercy of speculators who were driven by herd mentality that caused, “the instability [in the markets] due to the characteristic of human nature [...] Most, probably, of our decisions to do something positive [...] can only be taken as a result of animal spirits” (p. 134).

One of Keynes’ most formidable opponents, Milton Friedman, held the belief that harmful speculation would be unprofitable and therefore does not exist. Other arguments range from the view that the real and the derivatives market are equally important, as presented by Riggs and Velk (1999) to the worry that a FTT might not be able to curb short-term transactions while not affecting “productive” trading.

Friedman’s thinking is based on the concept of arbitrage: speculators look for stock, financial instruments, etc. that are over- or underpriced. This is a situation that offers a possibility for profit-making, simply by buying in the market where it is underpriced and selling it where it is more expensive. Hereby, the arbitrageur assures that prices, *ceteris paribus*, are always the same in different markets. Arbitrage is the reason why for example gold in the

exchange in London always costs the same as it does in New York. That it does not always work that way can be seen with the example of the so-called carry trades that stand in sharp contrast to exchange rate theory. By definition arbitrage is risk-free, whereas carry trades always involve risk (Jylhä, Suominen, & Lyytinen, 2008). For a carry trade money is borrowed in a market with low interest rates and invested in a market with high interest rates with the expectation that the exchange rate in the first market appreciates. Hence, it is not arbitrage. Arbitrage would lead us to think that the expected results are equalized returns across all markets (Schulmeister et al., 2008). Friedman's thinking may still be omnipresent but reality has proven his theory that speculation cannot be destabilizing wrong many times. Recognizing this fact does not take an economics degree but only common sense and a clear view of the events in 2008 and similar financial meltdowns.

With their claim that derivatives and goods markets are equally important, Riggs and Velks (1999) apparently decided to rid themselves of Adam Smith and the most fundamental basics of classical economics. One essential insight of the classical economists was that real values make a society wealthy, not money. Derivatives can be understood like a tower of derived, artificially created values built on top of a real value such as a house. That not all derivatives can be backed by real values one to one, becomes immediately apparent by the fact that derivatives trading is approximately 50 times world GDP. This number is even higher for the EU where it amounted to 84 times GDP in 2006 (Schulmeister et al., 2008). Therefore, both markets are not equally important because only one produces real values that back to some degree the derivatives of the second market. The US subprime crisis is the ideal example to stress how important this distinction is, and what the consequences are if derivatives are not backed sufficiently by real values.

The third argument, the question whether it is possible to target harmful speculation while not affecting "regular" trading, is an important concern and one that is among the most hotly debated. What makes this argument so important is the interconnectedness of the financial market and instruments traded in it. The Commission agrees with this assessment: "In reality, it has become extremely difficult to make a meaningful and operational distinction between speculative and non-speculative transactions" ("Proposal for a Council Directive," 2008). It is becoming increasingly complicated to determine what are short and what are long-term instruments, what is backed by real values and what is not or to what degree. And even if some questions can be answered, this still might not necessarily offer a clear case for the speculative character of the instrument. Keeping up with financial innovation is a daunting if not impossible task, and if only certain types of instruments are taxed, a requirement would be that someone who is able to understand the ever new and improved instruments classifies them in order to determine the appropriate tax rate. This is even more questionable as the subprime crisis has shown that there are very few that have a full grasp of what exactly the instruments are that they are trading. Could these elites be recruited to regulate the source of their fortunes, their own companies, their bread and butter? Maybe so, but the creation of an elite group of highly qualified specialists that are capable of regulating financial instruments and also enforce these regulations would have to become a priority during the process.

3. THE FEASIBILITY OF A TRANSACTIONS TAX

When James Tobin first proposed the Tobin tax in the 1970's the question of how it would be technically feasible to tax transactions in the foreign exchange market was a very

problematic concern. Today, in the digital age of the internet and high centralization of the financial markets with the use of clearing and settlement systems, the technical side should no longer pose a serious problem. Furthermore, it is estimated that the administrative cost of levying a FTT should be comparably very low (“Proposal for a Council Directive,” 2008).

A common counter argument in the context of technical feasibility of a FTT is the concern that it might lead to tax evasion. First, evasion from taxable to non-taxable transactions, and second, a flight of speculators to other markets and offshore tax havens (Reisen, 2002). If the goal of implementing a transaction tax is not only to raise revenue but to stabilize markets, the switch to non-taxable instruments is desirable. The same is true for the migration of certain types of speculators to different markets (i.e., those engaging in high-risk and thus destabilizing activities); in particular if Westerhoff’s findings that the increased instability in the second market could cause enough pressure for that market to also introduce a similar tax would prove to be correct. The migration of “noise traders” would obviously lead to less market depth and the risk that it might lead to more volatility as explained previously. Also, it needs to be stressed that the possibility of tax evasion simply cannot be used as a valid argument against levying a tax as it would necessarily lead to the logical necessity to abolish all taxes.

What is completely lost in the current debate is the fact that financial transaction taxes are not quite as revolutionary as they may seem. Many countries have, or used to have (and disposed of them in the course of trade liberalization and globalization in the past 20 years), some kind of taxation on financial transactions and/or capital. Seven out of the 27 EU member states, Switzerland, and Japan have a capital duty of up to 1%. The same study shows that Switzerland, Hong Kong, Singapore, and China levy transfer taxes of up to 5%, which is far beyond the level the EU plans (Schulmeister et al., 2008). Interestingly, the UK has been imposing the so-called stamp duty of 0.5% of the sales price for a long time, and “added a new version to cope with sales of uncertificated stocks” (Beattie, 2011). How significant the stamp duty is fiscally can be seen in the fact that in 2005 it amounted to 0.8% of GDP (Schulmeister et al., 2008). The FTT proposed by the Commission would extend the taxation to other sorts of instruments which the British government wants to prevent. Each country with a tax on financial transactions and/or capital offers an example for the reality that, and an example for how financial transactions and capital flows can in fact be taxed. The conclusion is therefore that neither the design of the FTT nor technical concerns are hindrances. The actual hindrance appears to be political will and the real question is whether a FTT is politically, rather than technically, feasible. An answer will not be given in this paper as only time can tell. But in times of increasing influence of banks and other financial institutions over the political process, the success of a policy that would curb their profits is doubtful.

It has been shown that there are several unresolved issues regarding a financial transaction tax among scholars: It cannot be determined with absolute certainty what effects a FTT would have on price volatility. The uncertain effect on market stability makes it necessary to introduce the tax at a low and sensible rate and then monitor its effects. Secondly, there is the issue of targeting speculative activities while assuring the proper functioning of the market. For this reason, a universal tax at a low rate is the preferred method. This way, short-term speculation could be targeted because of the shorter time horizon. In other words, both short-term and long-term transactions would be taxed. However, speculators who are in the market for short-term transactions would be affected much more than long-term investors

who would also have to pay but at such a low level (as they enter and leave the market only seldom) that it would not deter them from investing. For example, a tax as low as 0.05% would result in an annual tax burden of approximately 43% for someone who enters and leaves the market once each day (Westerhoff & Dieci, 2006). On the topic of tax evasion, the Commission has proposed to use the residence principle. This means, all transactions made by a company headquartered in the EU are subject to the tax, regardless of where they are conducted (“Proposal for a Council Directive,” 2008).

Lastly, the technical and political feasibility were addressed, and it was concluded that while technical issues should not pose a significant problem, political will is likely the largest hurdle. This means that none of the issues discussed above can or should be taken as an argument to scrap the entire proposal, but they do make a good case for a careful and sensible introduction. While there are these points of contention that have been addressed the need to introduce a FTT in the EU can be substantiated even further.

JUSTIFICATION FOR THE PROPOSAL

According to Peter Hall (2010), Europe has seen three different economic periods after World War II: 30 years of embedded liberalism until around 1975, the transition of the 1970s, and neo-liberalism since the early 1980s. The neo-liberal period has been characterized by the challenge of job creation in the absence of adequate growth rates and increasing global competition. To address these issues policy makers moved away from active state intervention and, “toward the allocation of resources through markets [...] and a shift away from the use of active demand management toward the use of supply-side policies” (Hall, 2010, p. 3). Abdelal (2006) believes that consequently, “the conventional accounts of the rise of a new era of global finance and a liberal regime to govern it are so widely credited that they constitute truisms for many scholars and policy makers” (p. 4). As a result, these past decades became an era of the sanctification of the markets. Governments lost power in favor of the markets, and the state’s financial authority was eroded. It is said that no person or institution could allocate resources more efficiently than the free market. If problems do arise they are said to be the result of intervention that, hence, give reason for further deregulation. Free markets, however, are a utopia. They do not and will never exist; and markets that are half-free do not produce free market results. What they produce instead can and does include market failure – defined by Slavin (2008) as the phenomenon that results when resources are not allocated efficiently.

Resources will be allocated efficiently if certain assumptions are fulfilled: a) rational expectations b) perfect information c) no transaction costs. If these three points are met Pareto optimality will necessarily be achieved. It has long been assumed that conditions b) and c) could most likely be found in financial markets but to what degree this is accurate will not be explored here. The assumption of rational expectations is the most crucial one and it suffices to disqualify the idea that market failure plays no role in financial markets. The rational expectations assumption has, according to De Grauwe and Grimaldi (2007), “now become the main building block of macroeconomic modeling, so much so that macroeconomic models without a microfoundation based on the rationality assumption are simply not taken seriously” (p. 1).

It is apparent that common sense and every day experiences prove that people do not behave rationally. But there has also been research conducted to support that notion: Professor Ernst Fehr (2001), a renowned economist in the new field of behavioral finance at the University Zurich, has been conducting extensive research that shows that people com-

mand in fact very limited rationality and will. He found that instead of only pursuing their self-interest, which rational behavior would demand, their actions are often influenced by different factors such as the desire for justice and fairness. The reason why speculators cannot be considered rational agents is summed up in his poignant comment that, “someone who thinks the others are rational will not earn much” (Bernau, 2006)². The conviction that people do not behave in accordance with the rational agent paradigm is further supported by the empirical work of De Grauwe and Grimaldi (2007). They recognize that, “a major shock to the theory [rational-expectations-efficient-market (REEM)] came when spectacular bubbles and crashes occurred in both the stock markets and in the foreign exchange markets [...] and that other empirical anomalies have been discovered that invalidate the REEM model” (p. 2 – 5). Hence, the conditions for rational economic agents are not fulfilled which permits the argument that financial markets may become (and have been) subject to market failure. In accordance with Keynesian thinking, these market failures can be corrected or at least moderated by means of government intervention, ideally through fiscal policy (i.e., a financial transaction tax).

It is apparent that there are good theoretical economic reasons for a FTT but the proposal to levy such a tax deals with the real world in its current situation. In the academic debate about the tax, the question of tax revenue has never played a major role, the reason being that taxes in economics are usually viewed as distortive forces in the market. However, the financial sector is subject to extremely low taxes and, “enjoys a tax advantage of approximately €18 billion per year because of VAT exemptions on financial services” (“Financial Transaction Tax,” 2011). This means that the market is already distorted because of the tax advantages the financial sector enjoys. Thus, relative prices are also already distorted in favor of the financial sector. In this case a FTT would be a corrective not a distortive force as it would lessen the distortive gap between the financial and the other sectors of the economy; relative prices would even out in proportion to the tax.

If tax revenue has never played a role since Keynes’ proposal in 1936, why should it now? The German magazine *Der Spiegel* estimates that the crisis cost the global economy over \$10 trillion which amounts to over \$1500 per each person on the planet (“Studie: Finanzkrise kostet,” 2009). “As a result of the crisis, public debt in all 27 EU member states jumped from below 60% of GDP in 2007 to 80% for the years to come”, and it only keeps rising. EU member nations committed €4.6 trillion to bail out financial institutions in the course of this crisis and the question is if the externalities of the financial sector should not be internalized (“EIZ Niedersachsen,” 2011). Every new bailout for banks, every new rescue package for Greece, etc. all of this will translate into a higher burden the government and ultimately the tax payers have to carry. More tax revenue is urgently needed.

With every new panicked last minute crisis aversion tactic, it becomes more apparent just how much power national governments have lost in the course of the deregulation of the financial markets in favor of financial institutions and how little control national governments have at this point over banks, investment banks, hedge funds, etc. Already in 1986, Susan Strange considered the situation to be so urgent that she described the international financial system as a casino in which gamblers, “have got out of hand, almost beyond, it sometimes seems, the control of governments” (p. 21). In the 26 years since then this trend has not been reversed. Instead the erosion of the state’s financial authority has accelerated

² This is a translation of the comment E. Fehr made in the interview.

and, as Strange (1997) points out, “with probably the sole exception of the United States (and possibly the Swiss Confederation), states are no longer able to resist the foreign exchange markets” (p. 369). Therefore it is crucial that governments use every tool at their disposal to regain some control. The price for the failure to do so is simply too high, as we have had to observe.

The preferential treatment of the financial sector also raises the question why an industry that causes such enormous costs for society at large should enjoy such beneficial tax treatment? The call for the “banks to pay their fair share” is becoming louder from the public, and within the EU it is also being uttered increasingly from politicians, in particular in Germany. The Commission stated that, “For the EU as a whole fiscal consolidation needs to restore sustainability could exceed EUR 800 billion in the next years” (“Proposal for a Council Directive,” 2011, p. 47).

At the same time unemployment is high, people pay less taxes while the need for public services is increasing. Governments are in dire need of tax revenue. A FTT would enable the EU governments to increase their tax revenue significantly while calming the public outrage over the perceived injustice of preferential treatment for those who caused the crisis, and alleviating social tensions. It is estimated that levying a FTT could generate approximately €55 billion per year in tax revenues (“José Manuel Durão Barroso”, 2011). It needs to be mentioned that it is very difficult to estimate the actual revenue because of the lack of experience with a tax of this type and secondly, because demand is likely to be highly elastic. Nonetheless, for a FTT, tax revenue would be substantial. According to the wishes expressed in the proposal of the Commission, tax revenues would be shared by the EU and the member states, it would be used to strengthen public finance, and it is badly needed in order to pay for the current crisis and build reserves for future crises (“Proposal for a Council Directive”, 2011).

While a FTT would generate significant revenues it would also offer a way to distribute risk more fairly. This means it would offer a way to return some of the risk speculators are taking in their trades to the financial institutions. For the functioning of the markets in the long-run this is crucial as it would be a measure to reduce moral hazard. If a child steals a cookie and is given a chocolate bar as a consequence of the theft, the child has a clear incentive to go and steal more. In other words, there is the concern that banks for example begin to use the possibility of government bailouts in their strategic planning as they did not have to pay for their sins before. Therefore, they have an incentive to engage in more risky behavior. A FTT would lower this moral hazard by redistributing the risk for highly speculative behavior back to those who engage in it, and thus lower the risk of an occurrence overall.

A FTT would not only force financial institutions to contribute to the cost of economic recovery while discouraging risky and unproductive trading, it would also lead to desirable social outcomes: A FTT would affect wealthier persons more, the reason being that people who have little or nothing cannot invest in the market, or invest in pension funds or similar things that would hardly be affected by a FTT because of their long time horizon (Mayert & Wegner, 2010).

EUROPE AND THE FTT

The FTT remains an unresolved issue in the EU. In January 2012 it led to a falling out between Great Britain and continental Europe, in particular with Merkel and Sarkozy, when the British Prime Minister Cameron refused to sign the fiscal compact because he was not granted an exemption for the city of London for the planned FTT, and by doing so

acted against a popular majority for the so-called Robin Hood tax (Poll). It has long been debated if a FTT could work without Europe's largest and most significant financial center or if it would cause a much feared mass exodus of investors towards GB. London is after all one of the most important financial centers worldwide, and almost all main banks have their Eurozone headquarters there. This argument does not appear to have scared Sarkozy, and neither his successor François Hollande, as well as Merkel who appear determined to realize the tax, with or without the cooperation from the island ("Sarkozy überzeugt Merkel," 2012). Should the tax be introduced in the entire Eurozone, France and Germany would be correct not to be too concerned, but only if the residence principle is realized because otherwise a massive activity shift from the financial markets of the continent towards London would occur. As, however, it is becoming increasingly more unlikely that all Euro countries will participate and the FTT is continuously being watered down, a successful introduction and realization is less and less likely. While a FTT appeared to be a realistic though not likely possibility when the Commission first proposed it, at this point, the decision for or against a FTT depends on the finance ministers and national governments which makes the introduction of a FTT highly doubtful. More and more compromises are debated such as the so-called financial activities tax, a tax on revenue and remunerations of financial institutions. It will doubtlessly generate significant tax revenue but would neither curb high-risk speculation nor have any of the correcting properties in regard to the existing distortions in the financial markets. As political motives and incentives reign supreme, it can be presumed at this point that the FTT will be sacrificed in political scuffles and bargaining and a watered-down compromise with questionable outcomes will be introduced. Political will remains as it always has been the touchstone of the issue.

CONCLUSION

Beyond the rhetoric of "Tax Against Poverty" ("Steuer Gegen Armut," 2011) and "James Tobin's ruinous idea" ("Review & Outlook," 2011) it quickly becomes evident that a FTT is a viable and innovative option to increase tax revenue, all the while discouraging noise trading and risky behavior in the financial market. These points are uncontested. Is there a possibility of unwanted side effects? Is there uncertainty involved in its effects on the question whether some speculators will leave the taxed market? Certainly! The question that needs to be asked here is not how much would these speculators add to the volume in the market, but how much damage can be prevented by discouraging their high-risk behavior. A FTT will not solve global poverty, it will neither prevent future financial crises, nor stabilize the failing European member states! Economic collapses as well as debt crises involve complex and complicated dynamics that cannot be solved with a small tax on financial transactions. What a financial transaction tax can do is generate significant and much needed tax revenue, and it can reduce highly speculative transactions such as high-frequency trading. It is important to see the possibilities of the tax realistically. The FTT should be used as one tool among many in a serious effort to get the current crisis in the EU under control, and at this point the EU needs to take advantage of every possibility it has and must not be discouraged by the opponents. Nobody likes speed limits, producers do not like regulations, tax payers do not like taxes, and speculators do not like financial transaction taxes. Nonetheless we have them in order to protect the greater good.

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